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## **The effects of country of origin and networks on internationalization**

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## **The effects of country of origin and networks on internationalization - a comparative study of high tech SMEs**

### **Abstract**

This study examines the internationalization of high technology small and medium enterprises (HTSMEs). It explores how they develop and use networks to penetrate their first foreign market relying on information collected via direct interviews with the CEOs or founders of 58 high technology small firms that operate internationally. It uses mixed methods to discuss the network building mechanisms identified – client supplier relationships, existing personal contacts, contacts acquired by chance, and contacts acquired through specific strategies. The findings provide the basis for developing propositions for further comparative analyses of the internationalization of HTSMEs based in emerging and developed markets. The study contributes to the literature on networks, internationalization and international entrepreneurship.

**Keywords** – Internationalization, networks, country of origin, international entrepreneurship, high technology small and medium enterprises, emerging economies, Latin America

## 1. Introduction

The literature on institutions illustrates that emerging markets differ from developed economies because they suffer from institutional weaknesses and market failures (North, 1990; Khanna & Palepu, 2010). Under these conditions, companies leverage relational capital and social networks to achieve their strategic objectives (Nahapiet & Ghoshal, 1998). There is much empirical evidence showing that firms' country of origin may affect internationalization strategy (Dunning, 1998; Rugman, Verbeke, & Nguyen, 2011; Rugman, Oh, & Lim, 2012). The use of networks by small enterprises as a means to support internationalization has also received much attention (Coviello, 2006). However, the effect of being based in a developed or an emerging economy on network-supported internationalization is a largely unexplored issue, especially with regard to small entrepreneurial businesses. This study contributes to the development of small firms' internationalization theory by discussing how HTSMEs based in different domestic contexts develop and use their networks to support their first export.

The importance of networks as mechanisms supporting internationalization has been documented at length by the international business and entrepreneurship literature (Coviello, 2006; Johanson & Vahlne, 2009; Ellis, 2000; Ma, Yao, & Xi, 2009). The internationalization of high technology small and medium enterprises (HTSMEs) has received special attention, with many of the studies of born globals and international new ventures focusing on HTSMEs (Knight & Cavusgil, 2004; Moen, 2002). However, there is still little empirical evidence on the internationalization of HTSMEs based in Latin America (Nicholls-Nixon, Davila Castilla, Sanchez Garcia, & Pesquera, 2011; Lopez, Kundu & Ciravegna, 2009). This study responds to calls for the advancement of the research agenda on internationalization through qualitative

research exploring different empirical settings, and in particular Latin America (Mort & Weerawardena, 2006; Halinen & Törnroos, 2005; Pérez-Batres, Pisani, & Doh, 2010). The key research questions we address are: *How do HTSMEs search for and find their first client in a foreign market? If they use networks, how do they build such networks?*

We explore how the country of origin affects the internationalization of firms based in Costa Rica, a small emerging economy in Latin America, and Italy, a large developed European economy, using a mixed-method approach. We leverage the findings to advance the research agenda by developing a set of propositions for further empirical testing. We chose this unconventional mixed method approach for the following reasons. First, we respond to calls for more diversity in the methods applied to international business and entrepreneurship research (Birkinshaw, 2004). Second, exploratory research and mixed research methods are suited to refine the research agenda on new topics and empirical settings (Bryman, 2006) - there are only a few studies examining the effects of country of origin on network-supported internationalization and evidence about Latin American companies is still very scarce (Rugman et al., 2011; Nicholls-Nixon et al, 2011; Mort & Weerawardena, 2006). In the next two sections we review the literature on networks and internationalization and outline our research methods. The following two sections present and discuss the findings, illustrating that both Italian and Costa Rican entrepreneurs relied heavily on networks and social capital to support their first export.

## **2. Literature review**

Several studies have documented that some small and medium enterprises (SMEs) internationalize fast in spite of their size, especially in high technology sectors, such as

information technology services and software (McDougall, Shane, & Oviatt, 1994; Andersson & Wictor, 2003). Evidence of fast internationalizing HTSMEs has been the springboard of several new concepts, such as “born globals” (Knight & Cavusgil, 2004; Moen, 2002) and “international new ventures” (Oviatt, & McDougall, 1994; Crick, 2009). The debate about the characteristics of “born globals” and “international new ventures” is beyond the scope of this study, though one of its objectives is to contribute to the literature on the internationalization of HTSMEs by providing new comparative evidence of the internationalization mechanisms used by companies based in different economies.

A large share of the literature on HTSMEs’ internationalization draws from the resource-based view, which considers the firm as a bundle of resources, ranging from human and financial resources to managerial and technological skills (Grant, 1991). The network approach to internationalization argues that through networks (personal contacts and inter-firm networks) HTSMEs can link internal and external resources to pursue strategic aims, such as entering a new market (Coviello & Munro, 1997; Moen, 2002; Blomstermo, Eriksson, Lindstrand, & Sharma et al., 2004; Sharma & Blomstermo, 2003). Networks can help firms identify business opportunities and support their entry into markets they are unfamiliar with (Chetty & Holm, 2000; Madsen & Servais, 1997; McDougall & Oviatt, 2000; Ellis, 2011; Javalgi & Todd, 2011).

The degree to which firms leverage internal and external resources may be contingent upon country specific advantages (Rugman et al., 2012). Such firm-specific advantages are primarily derived from the internalization of some asset, for example a network (Rugman et al., 2011). Simultaneously, firms will build on country specific advantages to decide, given a set of internalized assets, which products and markets to pursue, and, generally speaking, which configuration —part of it being the scope of internationalization— to adopt in terms of these

market segments. Rugman, Verbeke and Nguyen (2011) argue that firms build first on country-specific advantages before they start generating firm-specific advantages. Thus, it is plausible that the use of networks to support internationalization may greatly differ by country. Most scholars researching the effects of the country of origin on internationalization focus on multinational enterprises, and they rarely examine Latin American firms (Rugman et al., 2011; Dunning, 1998; Nicholls-Nixon et al., 2011). This study furthers the research agenda by exploring the network-supported internationalization of small high technology firms based in an emerging and developed economy through a comparative mixed method approach.

Institutional theory suggests that developing countries firms face significant challenges in the internationalization process, as there are weak institutions in the form of underdeveloped capital markets, labor markets, and product markets (North, 1990; Fukuyama, 1995). In contexts affected by institutional weaknesses, firms may compensate for market failures by relying more on the personal contacts of the entrepreneur and senior management, often defined as social and relational capital (Khanna & Palepu, 2010; Ciravegna, 2011). Social capital theory explains how firms generate value from the network of relationships in which they are embedded, emphasizing the role of relationship building and capability building for young firms seeking to go abroad (Nahapiet & Ghoshal, 1998). Yli-Renko, Autio, & Tontti (2002, p. 11) argue that “the social capital of key individuals can be used to solicit trust and reciprocal disclosure of information, to open access to sources of learning, and to obtain informational cues that might be otherwise difficult to obtain.” Many perspectives have been used to examine the international growth of young firms, but an increasingly influential approach is to focus on the relational capital that firms build as a way of creating opportunities and capabilities to grow beyond their home market (Kale, Singh, & Perlmutter, 2000; Prashantham & Dhanaraj, 2010).

In sum, the literature on internationalization illustrates that small firms often use networks to overcome resource constraints (Coviello, 2006; Ciravegna, 2011). Institutional theory suggests that firms based in emerging markets may be more likely to rely on social and relational capital than firms based in developed economies (Khanna & Palepu, 2010). Scholars of multinational enterprises also emphasize the importance of country of origin (Dunning, 1998; Rugman et al., 2011). It is unclear whether internationalizing small enterprises based in an emerging economy differ in their use of networks from firms based in a developed economy. In this study we contribute to the development of the internationalization theory by examining HTSMEs based in Costa Rica, a small Latin American economy, and Italy, a large European economy.

Networks to support internationalization may be inherited or actively constructed by entrepreneurs (Harris & Wheeler, 2005). Some authors point out that entrepreneurs may choose their export markets depending on the opportunities that emerge in specific circumstances, for example an unexpected referral from an existing domestic client (Brewer, 2001; O'Farrell & Wood, 1994; Kontinen & Ojala, 2011). Several scholars disagree with this view, suggesting instead that network-supported internationalization is a more active entrepreneurial process (Johanson & Vahlne, 2009; Kim, Basu, Naidu, & Cavusgil, 2011).

Evidence of network building mechanisms and their role in the international business opportunity recognition process remains scarce. For this reason, several scholars call for more qualitative analyses of these processes and for the use of exploratory research to develop the theory (Halinen & Törnroos, 2005; Ojala, 2009; Dominguez & Brenes, 1997; Bryman, 2006; Robson, 2011). Comparing qualitative evidence collected from Italian and Costa Rican HTSMEs, we identify different mechanisms through which the companies acquired the networks they used to support their first international venture. We discuss more in detail each mechanism



using case studies. We discover a set of general trends and develop a set of testable propositions to advance the theory of HTSME internationalization (Yin, 1994; Mort & Weerawardena, 2006; Tashakkori and Teddlie, 1998).

### **3. Methods**

This study focuses on the internationalization of a specific type of firm: the high technology entrepreneurial SME. Given that there is very scarce empirical evidence about the internationalization of Latin American HTSMEs, and that research comparing the use of networks by emerging market and developed economy internationalizing HTSMEs is in its initial phase, we adopt an exploratory mixed method approach, as suggested by the research methods literature (Bryman, 2006; Robson, 2011, Tashakkori & Teddlie, 1998).

We include in the sample only firms that have a maximum of 250 employees and whose average annual sales do not exceed Euro 50 million, located in the Central Valley of Costa Rica and the Province of Turin of Italy (European Commission for Enterprise and Industry, 2011). We focus only on producers of software packages or information technology services for other businesses, which have been considered to be “high technology” by previous research (Coviello & Munro, 1997; Spence & Crick, 2006). Only firms that export a minimum of 5% of their average yearly sales are included in the analysis. In order to capture the “entrepreneurial” aspect, we exclude subsidiaries of larger corporations, focusing on firms that are independently owned and where the founding entrepreneur continues to play a key role, either as CEO or Director.

The two samples, from Costa Rica and Italy, have been selected in order to contrast the use of networks by HTSMEs based in a small developing economy to that of HTSMEs based in a large

developed economy (Kim et al., 2011; Descotes, Walliser, Holzmüller, & Guo, 2011; Yin, 1994). We choose these two countries starting from the tenets of institutional theory, which suggests that emerging economies differ from developed economies in that they suffer from institutional weaknesses (or institutional voids). Such institutional weaknesses generate challenges for business, especially SMEs, which can be overcome by using relational capital, such as networks (North 1990; Khanna & Palepu, 2010; Uzzi, 1996). Rugman also underlines the importance of the country of origin in explaining the internationalization pattern of firms (Rugman et al., 2011). For these reasons, we select two countries that differ starkly in terms of total GDP and GDP per capita. Additionally, we focus on Italy and Costa Rica because Italy has been the subject of a several studies of entrepreneurial SMEs (Piore & Sabel, 1986; Porter, 1998) and Costa Rica is well known for its electronics and software cluster (Lopez et al, 2008; Ciravegna, 2011). We also have a pragmatic reason for selecting the two countries: two of the authors of this study are from Italy and Costa Rica, which facilitates the collection of qualitative information about networks and the institutional context (Robson, 2011).

According to the World Bank (2011), Italy's GDP in 2009 was US \$ 2,113 billion, whereas that of Costa Rica was US \$ 29 billion. In the case of Costa Rica, we focus on firms based in the Central Valley, which is inhabited by approximately 2.5 million people, and where most high technology companies are located (Lopez et al., 2008). In the case of Italy, we focus on the Province of Turin, which has a similar number of inhabitants as the Central Valley of Costa Rica, and also hosts a concentration of high technology firms (Unioncamere Piemonte, 2009). The two regions differ in terms of income: the Province of Turin is one of the richest areas in Europe, with an average per capita income of approximately US \$ 28.000 per year, which is roughly four

times as much as the average income in Costa Rica (Unioncamere Piemonte, 2009; The World Bank, 2011).

We selected our samples using a multi-stage method. We collected the databases of high technology firms of the Chamber of Commerce of the Province of Turin (Camera di Commercio Industria Artigianato e Agricoltura, Provincia di Torino 2006) and the Costa Rican Chamber of Information and Communication Technologies Producers (Camtic, 2006), and contacted suitable SMEs (65 from Turin and 74 from Costa Rica). Only 43 firms from Turin and 52 from Costa Rica made themselves available for interviews. Out of these, 28 firms from Costa Rica and 30 firms from Italy complied with all of our criteria and were thus included in the study. Subsequently, the authors carried out interviews with the entrepreneur, founder or, when that was not possible, the current CEO of the firm. Each interview lasted 80 minutes on average, and it was conducted by the authors in the native language of the interviewees, which reduced the potential imperfections related to the real time translation of qualitative information (Yin, 1994). We did not record the interviews because this can interfere with the process necessary to collect ethnographic information, undermining its results. Instead, following the suggestion of social network researchers, we opted for manual note taking, which has minimal emotional and visual impact on the subject (Bryman, 2006; Marshall & Rossman, 1995; Robson, 2011; Uzzi, 1996). All of the interviews were carried out by one, some of them by two of the authors, using the same framework, which was designed in English and back-translated into Italian and Spanish. Although we are aware of the fact that interviewing only one person per company can generate biases (Marshall & Rossman, 1995), the interviewees were in our case the individuals with the highest organizational knowledge and the most important decision makers.

The interviews, which were semi-structured and open ended, focused on the first international venture of the firms. Following the suggestions of Coviello and Jones (2004), Loane and Bell (2006), and Kontinen and Ojala (2011), we asked broad open questions about the process through which the companies searched for and found the first client in a new foreign market, such as “Could you please tell us how you achieved your first sale in a foreign country?” When the interviewees mentioned that their first export occurred thanks to the support of individuals or organizations external to the firm, such as personal contacts of the entrepreneur or existing domestic clients, we asked them to provide detailed information about the process through which they developed personal or firm-level relationships with these actors using non directive items, such as “Could you please tell us a bit more about that” or “Could you please explain how you met this person?”. This follows the research methods adopted by the literature on social ties and social capital as firm-level resources (see for example the seminal work of Uzzi, 1996). We also collected detailed information about specific events that characterized their first international venture, such as the type of client, sector, and the relevance of the sale for the future development of the firm. We collected further information, such as information on the basic characteristics of the firm (e.g. number of employees, number of markets it sells to), by asking the interviewees to complete a questionnaire and provide other available documentation. In 10 cases we performed follow up conversations, interviews with other executives working in the same companies, email, and phone conversations to enrich our data.

We took extensive notes as the interviews proceeded. Immediately after the interviews, we transcribed them. We then created a case history for each firm, triangulating the information provided by the interviewees with the basic data contained in the questionnaires and other sources, such as leaflets, websites and firm reports. This allowed us to check for inconsistencies

and enrich the cases with information collected from different sources (Yin, 1994). After having examined within-case information we cross-analyzed the qualitative evidence to search for common patterns during the first international opportunity recognition process. Following the arguments of Styles and Hersch (2005) and Yin (1994), we interpreted the data in ways that reflected at best the similarities across groups of firms in our sample whilst simultaneously leading to analytic generalizations that contributed to the debate about the internationalization of small high technology firms. Having verified that a large number of firms used some type of personal or inter-firm relationship (which we defined as “networks”) to support their first export, we identified four categories of mechanisms through which they developed such networks: Client – supplier relationships, the personal contacts of the entrepreneurs, chance, and networks built strategically to support internationalization. The category “personal contacts” encompasses all of the cases where entrepreneurs used their existing social ties (Yli-Renko, Autio, & Tontti, 2002) to help them find clients abroad, which include family contacts and contacts acquired through shared experience, such as attending to the same school. Contacts acquired by chance are social ties that developed as a result of unpredictable and unplanned events (Prashantham & Dhanaraj, 2010). The last category “strategically built networks” refers to networks that were developed specifically to facilitate internationalization (Coviello, 2006).

In order to provide a thorough comparative examination, we combined descriptive statistics with a section that discusses qualitative evidence. The use of qualitative methodology is justified by the need to provide more evidence of the process through which firms develop and use networks to internationalize (Eisenhardt, 1989; Yin, 1994; Mort & Weerawardena, 2006; Ojala, 2009; Robson, 2011; Creswell, 2009). The cases we discuss in this study have been selected on the basis of relevance, with the objective of representing the key typologies of network building

mechanisms that were identified by cross analyzing qualitative information about the HTSMEs of Costa Rica and Italy, as suggested by the tenets of mixed methods research (Coviello & Jones, 2004; Yin; 1994; Bryman, 2006). In the next section we discuss some basic characteristics of our sample of firms.

#### **4. Firms' profile**

All of the Costa Rican and Italian firms are software developers or providers of outsourced information technology services, such as customized programming and data storage services. Most of them have less than 25 employees. None of them had average yearly sales exceeding Euro 10 Millions.

Figure 1 here.

Figure 1 shows the export intensity of the firms in our sample. This is measured as the percentage of sales from exports divided by the total sales of the firm. Export behavior varies across the board, with about half of firms having exports that are less than 50% of sales in both the Costa Rican and Italian sample.

Figure 2 here

The firms in our sample started exporting, on average, a little less than 4 years after inception, although 12 of them started to export almost immediately, less than two years after they had been created. Some firms, though, six in total in our sample, did not start exporting until after a decade had elapsed since their foundation. In all we see that firms internationalized relatively fast, with the vast majority, 50 firms in the combined sample, started to export within 6 years of

their inception. This can be seen in Figure 2 where the time elapsed between firm's inception and first export is shown.

An ANOVA comparison between firm-level variables for the Costa Rican and Italian samples showed that the firms in both samples are similar along all variables except for firm size (which was the only statistically significant different dimension between both samples). Costa Rican firms are slightly larger than the Italian counterparts in the sample. This notwithstanding, we were surprised by the similarity of the firms studied along these variables. We performed a one-way ANOVA to see if the firms that used networks were different from those that did not in terms of time elapsed to first export and export intensity (Table 1). According to our data, those firms that use networks took less time to export.

Table 1 here.

Our preliminary data show that using networks has an effect upon the speed and intensity of internationalization of HTSMEs. Most of the firms examined in Costa Rica (25/28) and Italy (23/30) used networks to support their first exports. They relied on networks for two main reasons: to acquire information and to compensate for their lack of an established reputation in foreign markets. This is consistent with the network approach to internationalization (Sharma & Blomstermo, 2003; Chandra, Styles, & Wilkinson, 2009; Chetty & Holm, 2000; Coviello & Munro, 1997). They also provided similar explanations as to why and how they use networks, suggesting that HTSMEs based in a small Latin American economy may face similar challenges and adopt similar strategies to HTSMEs based in a large European economy. This is of particular significance – it illustrates that small and medium sized enterprises in the high technology sector face severe resource constraints, and that they use networks to overcome such these obstacles,

disregarding of their country of origin and institutional context. The next section explores how HTSMEs based in Costa Rica and Italy build and use networks to internationalize.

## **5. Network building mechanisms**

A cross examination of the qualitative evidence collected from HTSMEs interviewed suggested the networks helped them to penetrate the first foreign market via – client supplier relationships, personal contacts, chance, and network building strategies. This section discusses briefly each of them.

Table 2 here.

### *5.1 Client-Supplier relationships*

Several of the firms interviewed (8 Costa Rican and 8 Italian) that used networks to support their first export relied on existing clients, which helped them find their first customers abroad.

The HTSMEs that internationalized using client-supplier networks did not actively search for international business opportunities. Independently of their country of origin, they reacted to opportunities generated by their domestic clients, which “pulled” them into new markets. This is consistent with the idea that internationalization follows different paths, some of which may be determined more by serendipity than by strategic planning (Jones & Coviello, 2005; Crick & Spence, 2005; Kontinen & Ojala, 2011). Further studies could explore whether this trend applies to SMEs operating in different sectors, and whether larger high technology firms also internationalize reactively when relying on buyer-supplier networks.

### *5.2 Personal contacts*



11 Costa Rican firms and 12 Italian firms found their first clients abroad by actively scanning their personal networks to search for professionals working in potential foreign markets who could help them internationalize. In both cases the entrepreneurs leverage their social ties (Nahapiet & Ghoshal, 1998) in an active and strategically planned manner, as consistent with the view of Johanson and Vahlne (2009), and differently from the firms that used buyer-supplier networks.

Table 3 here.

The range of contacts they relied upon includes family members, schoolmates, colleagues from previous jobs, fellow parish members, voluntary association members, and even a football team (Table 3). One of the main differences between the two sets of firms is that shared schooling experiences was not an important network building mechanism for Italian entrepreneurs, but five companies used contacts acquired through their membership of civil society associations, which did not occur in the Costa Rican sample. This could point to different types of contacts being used by firms in different countries. More informal networks, such as school and family contacts, appear to be preponderant in the Costa Rican sample, whereas more formal networks of personal contacts, such as civil associations, are present in the Italian sample. The following case provides an example of an entrepreneur who leveraged school contacts to search for support in his first internationalization attempt.

Case 1: Firm A is a Costa Rican producer of software programs for schools, founded in 1996 by an electronic engineer. The founder attended a local Business School to obtain an MBA. The firm develops programs that are highly customized to the needs of clients, for example the type of school in which the software is used, its syllabus and marking system. . In the year 2000, he decided to expand beyond Costa Rica. Exporting entailed identifying a set of potential clients in

a given market, adjusting the products, and finally presenting them. The entrepreneur preferred to export first to neighboring countries, as it entailed lower costs, for example costs of travel to meet clients and maintain client relationships. One of the problems was choosing which market to target, and finding a way to approach clients. He described the decision making process with the following words: “A few years ago I began thinking that I should sell in some other countries. ...The first thing I did was to contact friends from other countries who studied with me at the Business School. One of them was working for a consultancy firm in El Salvador. We talked about different ideas, and eventually we agreed that he would become my distributor, and sell my product in that market, bundled with the services of the firm he worked for. He identified clients, and obtained contracts. It was easier for him because he knew the local companies, and was already providing services to them. We both benefitted. The thing is, having lived together and shared many experiences for two years, we did not have to doubt about our mutual capabilities or about trust. Had I not known him from before, I would have needed some more assurance about his credentials and professional capabilities”. The Costa Rican software developer continues to sell in El Salvador. The success in the first export inspired the founder to continue internationalizing. He leveraged other contacts, including another Business School classmate, a university mate of his brother's, and a family friend, to obtain information about other markets. Partly thanks to these contacts, he succeeded in penetrating the software markets of the US, Panama, and Mexico. By 2007 the firm's average annual sales fluctuated between US \$2.2 and \$2.7 million, 80% of which were directed to foreign markets. Case 1 is consistent with the network theories of internationalization, which point to the use of different types of personal contacts as resources that help small firms acquire information and clients in spite of their lack of reputation in the market (Coviello, 2006; Ellis, 2000).

The Italian entrepreneurs argued that universities did not facilitate the formation of the type of contacts that could be subsequently used for business purposes as they lacked small sized seminars, and the vast majority of students and staff was from the same country and had no international experience. They pointed that civil society organizations such as the Lions and Rotary Clubs are part of larger international networks. The Costa Rican entrepreneurs argued that having taken part in small group exercises and business oriented workshops helped them develop the contacts used to search for clients abroad especially given that several of their fellow students were from other countries. Costa Rican entrepreneurs seemed not to consider civil society organizations as a mechanism that could help their business. They argued that it was not a custom in Latin America to rely on these except for reasons of appearance and status, which led us to develop the following proposition:

**Proposition 1:** HTSMEs based in Latin America are more likely to use school networks in comparison to use of contacts developed through civil society organizations than HTSMEs based in Europe.

### *5.3 Serendipity and contacts*

In five cases the entrepreneurs interviewed used contacts acquired in fortuitous circumstances. In two cases (a firm from Italy and one from Costa Rica) they met potential clients at vacation resorts. In others (one from Italy and one from Costa Rica), they relied upon professionals met at dinner parties organized by a mutual friend. The last case was that of a Costa Rican entrepreneur who met a Spanish software engineer on a flight back from Spain to

Costa Rica, returning from a vacation. The following case illustrates how contacts developed by chance have helped HTSMEs internationalize.

Case 2: Firm B is a developer of virtual simulation software and services for the railway and aerospace industries, based in Turin, founded in 2002 by two engineers. One of its founders has the habit of spending his vacations in a small hotel in a ski resort in the Dolomites Mountains, near the Italian border with Austria. There he met an Austrian engineer who spent his vacations every year at the same hotel. The two often went skiing together, sharing experiences and discussing both work and non-work related issues. The Austrian engineer works in an Austrian firm that produces machinery for ski resorts, such as lifts and cabins. One day in 2003 the Italian entrepreneur mentioned that the simulation software he developed could also be suitable to test ski machinery, as it focused on testing aerodynamics, noise and vibration levels. The Austrian introduced the Italian entrepreneur to the product development team of his company. In 2005 the Italian company was eventually hired as part of a team of different firms that cooperated to develop a new type of cabin for the Austrian manufacturer. This was the first foreign sale of the Italian HTSMEs. By 2007, the Italian firm employed seven people and sold 20% of its services to the Austrian client and the remaining 80% to its Italian clients.

The case of HTSMEs using contacts acquired by chance shows that internationalization is a process that can be affected by serendipitous events such as casual encounters (Brewer, 2001; Crick & Spence, 2005; Ojala, 2009). However, Case 2 also illustrates that casual encounters do not per se generate opportunities unless the entrepreneurs actively search for them even during their free time, a notion consistent with the tenets of the international entrepreneurship literature (McDougall & Oviatt, 2000; Shane & Venkataraman, 2000; Zahra, Korri, & Yu, 2005).

#### *5.4 Networks built strategically to support internationalization*

Two-thirds of the HTSMEs interviewed were engaged in network building activities aimed at penetrating new markets, though only two found their first foreign client through actively built networks. The case of the only Costa Rican firm that built the network it subsequently used during its first export describes the strategic intentions that underlie entrepreneurs' networking activities.

*Case 3:* Firm C is a Costa Rican company specialized in providing information technology services for medium size businesses, such as small retailers and private clinics. It develops many of the software applications it sells and bundles them with other applications purchased from third parties, and combines them with a data warehousing facility. The Costa Rican firm uses the databases and technological standards provided by a large American multinational corporation it works with. The latter organizes corporate events several times per year in order to consolidate its partnership with the local firms that rely on its technology. The Costa Rican entrepreneur goes to these events specifically in order to search for potential partners. In one of these events he established contact with the representative of a Chilean firm specialized in information technology consulting. They discussed the possibility to cooperate as the Chilean firm was not satisfied with its local providers of software applications for small businesses. After the first meeting, the Costa Rican entrepreneur contacted his Chilean counterpart and began exploring different options. He then flew to Chile together with one of his programmers to show their products to the Chilean firm. The latter tested the product and eventually adopted it, generating the first foreign sale of the Costa Rican company and beginning a partnership that continues as of 2011. The Costa Rican entrepreneur continues to go to the events organized by the multinational corporation and found two more foreign clients through this mechanism. Eight Costa Rican and

six Italian firms use the same strategy to develop contacts that can be used to internationalize. This illustrates how HTSMEs based in different countries may adopt similar strategies to acquire the needed networks to internationalize, in this case going to trade fairs (Ellis, 2011; Spence & Crick, 2006).

One of the Costa Rican firms adopted a different strategy to acquire contacts that could help identify foreign clients. It hired two professionals from the US in order to help fine-tune its services for the US market. The latter not only performed this function, but also used their professional contacts from previous jobs to help their new Costa Rican employer find its first American clients. The Costa Rican entrepreneur was very satisfied with his strategy. He commented: “That was a great idea. We really wanted to sell in the US, but none of us had the necessary knowledge of that market. These guys helped us understand better what we needed to do, who our potential clients could be. It also helped that they still had contacts there”. The strategy of the Costa Rican entrepreneur is in line with the idea that small firms internationalize relying on a diverse range of resources (Johanson & Vahlne, 2009; Coviello, 2006). Five other entrepreneurs from Costa Rica mentioned that they are contemplating hiring foreign experts to help them enter new markets. Interestingly, the Italian firms interviewed did not hire foreigners, arguing that there were enough local experts with international expertise and contacts. This difference in the perception of Italian and Costa Rican entrepreneurs could be explained by referring to size: having more than ten times the population of Costa Rica, Italy also has a larger pool of skilled labor that HTSMEs can attract to help them internationalize. The difference in institutional context could also contribute to explain why Costa Rican entrepreneurs choose to hire foreign experts (Rugman et al, 2012).

Costa Rican entrepreneurs pointed out that attending international trade fairs reduces the problems related with the perception of being based in a small economy in Latin America and makes it easier to approach potential clients. They pointed that hiring foreign experts can also help overcoming negative reputation effects. Italian companies did not seem to suffer from the same problem – they argued that their country of origin was not a relevant factor for internationalization. This particular aspect opens avenues for further research on the use of trade fairs and foreign experts as a means to improve visibility and credibility by companies based in emerging markets, and particularly Latin America (Nicholls-Nixon et al., 2011). This led us to develop the following hypotheses:

**Proposition 2:** HTSMEs based in large European economies are less likely to hire foreign experts to help their internationalization than HTSMEs from small Latin American economies.

**Proposition 3:** HTSMEs based in Latin America are more likely to perceive their country of origin conferring a negative reputation than HTSMEs in Europe.

## 6. Conclusion

This study provides new evidence on the internationalization of HTSMEs by examining firms based in Latin America, an under-represented region in international business (Pérez-Batres et al., 2010). Institutional Theory and Rugman and colleagues' (2011) framework provides the basis for selecting companies from two very different contexts (Costa Rica, a small developing economy, and Italy, a large developed economy) and exploring how this affected their internationalization and in particular their use of networks (North, 1990; Khanna & Palepu, 2010). We started from the premise that entrepreneurs rely upon their social capital and relational capital to successfully launch their products in international markets (Coviello, 2006;

Ciravegna, 2012). Our findings highlight that it may be difficult to generalize about whether the network-supported internationalization of HTSME is the result of an active strategic search or whether it is the result of serendipitous events. To build a more holistic network theory of internationalization it would be beneficial to integrate the insights of the international entrepreneurship literature which highlight the importance of opportunity exploration and recognition (Shane & Venkataraman, 2000; Ellis, 2011; Zahra et al., 2005), with those of the international business literature which emphasizes the role of strategic planning (Johanson & Vahlne, 2009) and the network approach to internationalization (Coviello, 2006).

In spite of the structural differences that distinguish their country of origin, the vast majority of both Italian and Costa Rican firms used networks to support their internationalization and adopted specific strategies to build such networks. This suggest that the size, wealth and institutional development of the economy where firms are based may influence their internationalization path less than other factors, such as whether they are SMEs or large firms, or the type of industry in which they operate. It also appears that internationalization through buyer-supplier networks is more reactive, whereas internationalization through personal networks is more likely to be strategically and actively pursued. These trends seem to point out a similarity in behavior between HTSMEs based in small Latin American economies and large European economies, which contrasts with the effects of country of origin on the internationalization of multinational enterprises (Rugman et al., 2011).

The most important differences we find are the mechanisms through which the HTSMEs build their networks. Costa Rican firms tend to emphasize the importance of school, in particular university and postgraduate education, whereas Italian firms generally do not use school-based contacts to support their internationalization. This calls for further research on the role of schools



and universities for the development of business networks in Latin America. If the propositions hereby developed prove to be valid, they will have important implications for policy makers, entrepreneurs, and business schools in Latin America. For Latin American entrepreneurs the implication could be that attending business schools and internationalized universities can help developing useful business contacts. For Latin American policy makers it could be that investing in education, especially with an international and business oriented perspective is an effective way to support the internationalization of local firms. For Latin American business schools it would illustrate the importance of attracting international students and academics and developing international links.

Costa Rican entrepreneurs' low consideration of civil society organizations as mechanisms to develop business contacts also suggests avenues for interesting research. If Latin American entrepreneurs behave as the Costa Rican entrepreneurs we interviewed, this could entail a low trust in civil society, as argued by Fukuyama (1995). It could also mean that civil society organizations are not sufficiently developed to become useful for business, or that entrepreneurs use them for different purposes. It would be interesting to test whether entrepreneurs based in other European economies also use these organizations to develop their business networks or whether it is a characteristic specific to Italian entrepreneurs.

Our findings also indicate that while trade fairs are important for HTSMEs based in any economy, firms based in Latin America attend them in order to build a positive reputation. It would be interesting to expand this into a broader cross-country study in order to analyze whether firms based in Latin America suffer from negative reputation to a greater extent than firms based in other emerging markets, or whether the negative reputation effect we detect is specific to high technology firms or being based in a small economy. Finally, Costa Rican firms'

reliance on foreign experts suggests that HTSMEs based in Latin America use this mechanism to help them internationalize more than firms based in Europe. This is linked to the reputational problems mentioned above and also the need to attract personnel with knowledge of the export markets they target.

This study, albeit with the limitations of exploratory research focusing on only two countries and one sector, contributes to the network theory of internationalization by looking at the effects of being based in emerging and developed economies. Our findings need to be expanded with additional case studies (Eisenhardt, 1989) encompassing high technology industries, and exploring in a comparative perspective the internationalization of low technology SMEs (Yin, 1994; Halinen & Törnroos, 2005). The next step would be to test the propositions developed using a sample of HTSMEs based in different economies of Latin America and Europe (Tashakkori & Teddlie, 1998; Robson, 2011).

From a managerial standpoint, the findings illustrate that the capability to build and use networks is crucial for the internationalizing HTSME based in a small developing economy – its relationships with domestic clients, colleagues and even casual encounters can provide the firm with clients in new markets (Harris & Wheeler, 2005; Lopez et al., 2008). International business opportunities can be found through a variety of network-supported mechanisms. Adopting multiple strategies for the search for clients in new markets is likely to broaden the range of opportunities that HTSMEs can find, and hence support their internationalization process. Our study shows that networks play an important role as mechanisms through which firms seek to become international. Thus, managers of HTSMEs should consider network building and the use of social capital as a routine activity within the firm.

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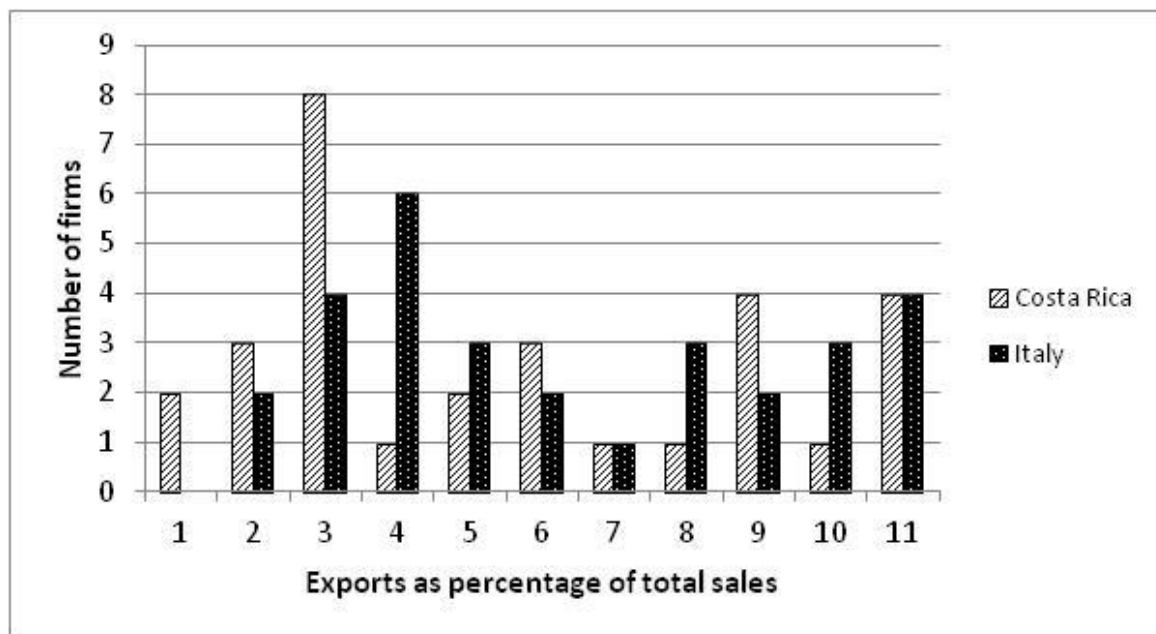
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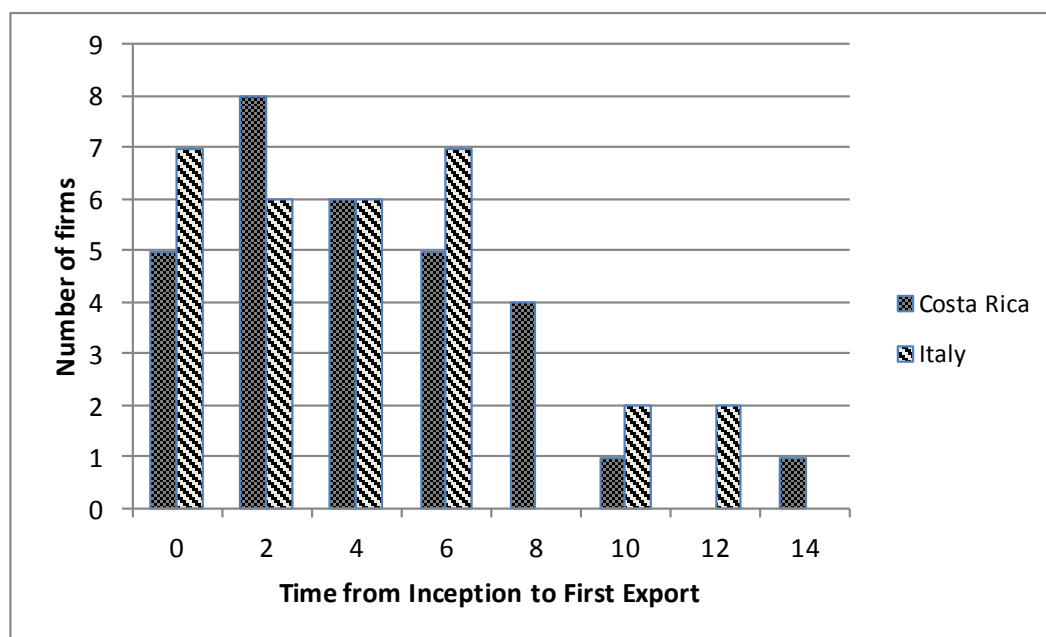
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**Figure 1. Export intensity for firms in our sample. Export intensity measured as percentage of total sales from exports.**



**Figure 2. Distribution of times elapsed to first exports.**



**Table 1. ANOVA comparisons for firms that use networks and firms that do not use networks; Italy and Costa Rica.**

		Use of Networks		Kruskal-Wallis One-Way ANOVA	
		No	Yes	Chi-Square	p
Time to First Export	Costa Rica	7,20	3,17	7,95	<i>0,005</i>
	Italy	5,29	3,22	1,75	0,186
Export Intensity	Costa Rica	20,80	51,91	3,80	<i>0,050</i>
	Italy	35,71	57,61	3,47	<i>0,062</i>

**Table 2. Network building mechanisms used in the first export**

Network building mechanisms	Costa Rican firms	Italian firms
Clients-supplier relationships	8	8
Personal contacts	11	12
Networks developed by chance	3	2
Networks built to support internationalization	1	1
Total of firms that used networks to support their first export	23	23
Firms that did not use networks to support their first export	5	7
Total	28	30

Source: Authors' Field Study

**Table 3. Personal contacts leveraged**

Origin of the social tie	Costa Rican firms	Italian firms
Family	2	3
School	7	2
Associations	0	5
Church	1	2
Neighborhood, work experience	1	0
Total	11	12

Source: Authors' Field Study